

HOLMES TRUSTEES LIMITED

Registered in England and Wales
No. 03982431

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2016

TUESDAY



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REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 31 December 2016.

The Report of the Directors has been prepared taking into consideration the entitlement to small company's exemption from preparing a strategic report provided in section 414B (b) of the Companies Act 2006.

Principal activity and review of the year

The principal activity of Holmes Trustees Limited (the "Company") is to hold the legal interest in certain property on trust absolutely for the beneficial owners of that property. As a consequence of the trust arrangement, no transactions took place within the Company during the year.

The Company meets the definition of a Special Purpose Entity and is consolidated within the Santander UK Group Holdings plc group financial statements in accordance with IFRS10.

The Company is part of a securitisation arrangement whereby related party Holmes Funding Limited receives proceeds from related party Holmes Master Issuer plc, which issues debt securities in the international capital markets, and makes such funds available to the Santander UK Group Holdings plc group by purchasing a beneficial interest in a UK residential mortgage loan portfolio held by the Company (the 'Holmes Master Trust').

The Securitisation Transaction document which sets out the securitisation arrangements in more detail can be found at www.santander.co.uk/uk/about-santander-uk/investor-relations/holmes-master-trust.

The trust property comprises a portfolio of mortgage loans secured on residential property in England, Scotland and Wales; interest and principal paid by borrowers on those loans and all other amounts received under the loans.

The beneficial owners of the trust property are Santander UK plc, the originators of the trust property, and Holmes Funding Limited, a fellow group company. The Company has no beneficial interest in the trust property.

All income from the trust property is distributed to the beneficial owners in proportion to their share of the trust property owned.

As at 31 December 2016, the book value of residential mortgage loans that Santander UK plc had assigned legal title to the Holmes securitisation structure was £5.56bn (2015: £7.05bn). The Holmes securitisation structure comprising fellow subsidiaries is over collateralised by £2.58bn (2015: £1.66bn). The Holmes securitisation structure acquired interest in a portfolio of mortgage loans (Funder share) was £2.98bn (2015: £5.39bn) and the Santander UK plc seller share was £2.58bn (2015: £1.66bn).

The Holmes securitisation structure has cash balances and reserves of £0.66bn (2015: £0.87bn) which also acts as a credit enhancement feature.

Likely Future Developments

The Directors do not expect any significant change in the level of business in the foreseeable future.

Results and dividends

The result for the financial year on ordinary activities after tax amounted to £nil (2015: £nil).

The Directors do not recommend the payment of a final dividend (2015: £nil).

Directors

The Directors who served throughout the year and to the date of this report (except as noted) were as follows:

Mr M H Filer
Mrs R J Morrison (appointed 7 April 2016)
Wilmington Trust SP Services (London) Limited

Wilmington Trust SP Services (London) Limited and Mr Martin McDermott jointly held one share in the holding company, Holmes Holdings Limited at 31 December 2016. The other share in Holmes Holdings Limited was held by Wilmington Trust SP Services (London) Limited. On 24 January 2017 the share held jointly was transferred to Wilmington Trust SP Services (London) Limited.

Mr M H Filer is also a director of Wilmington Trust SP Services (London) Limited.

None of the other Directors had a beneficial interest in the shares of the Company, or of the holding company, Holmes Holding Limited or its subsidiaries, at the year-end.

REPORT OF THE DIRECTORS (CONTINUED)

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of Going Concern

The financial position of the Company is set out in the financial statements. In addition, notes 7 and 9 to the financial statements include the Company's financial risk management objectives and its policies and processes for managing its capital.

The Company has adequate financial resources. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least the period of 12 months from the date the financial statements are authorised for issue. Accordingly, they continue to adopt the going concern basis of accounting in preparing the Annual Report and Financial Statements.

Qualifying Third Party Indemnities

Enhanced indemnities are provided to certain Directors of the Company by Santander UK plc (where such person has been nominated in writing by Santander UK plc as its representative on the board) against liabilities and associated costs which they could incur in the course of their duties to the Company. All of the indemnities remain in force as at the date of this Annual Report and Financial Statements. A copy of each of the indemnities is kept at the registered office address of Santander UK plc.

Independent Auditors

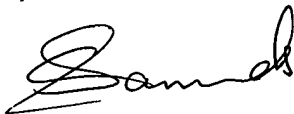
Each of the Directors as at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

PricewaterhouseCoopers LLP are deemed to be re-appointed as auditors under Section 487(2) of the Companies Act 2006.

By order of the Board



For and on behalf of
Santander Secretariat Services Limited, Secretary
11 April 2017

Registered Office Address: 2 Triton Square, Regent's Place, London, NW1 3AN

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HOLMES TRUSTEES LIMITED

Report on the financial statements

Our opinion

In our opinion, Holmes Trustees Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its result for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report") comprise:

- the Balance Sheet as at 31 December 2016;
- the Statement of Comprehensive Income for the year then ended;
- the Cash Flow Statement for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Report of the Directors has been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Report of the Directors. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HOLMES TRUSTEES LIMITED (CONTINUED)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Jessica Miller (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

12 April 2017

STATEMENT OF COMPREHENSIVE INCOME

For the years ended 31 December 2016 and 31 December 2015

There were no transactions in the current or prior year and the Company generated neither a profit nor a loss in either financial year.

STATEMENT OF CHANGES IN EQUITY

For the years ended 31 December

	Share capital £	Retained earnings £	Total equity £
At 1 January 2015	2	-	2
Result for the year	-	-	-
At 31 December 2015 and 1 January 2016	2	-	2
Result for the year	-	-	-
At 31 December 2016	2	-	2

The accompanying notes form an integral part of the financial statements.

CASH FLOW STATEMENT

For the years ended 31 December 2016 and 31 December 2015

The Company has not undertaken any cash transactions in the current or previous year and so no cash flows have occurred.

BALANCE SHEET

As at 31 December

	Notes	2016 £	2015 £
Current assets			
Trade and other receivables	5	2	2
Net assets		2	2
Equity			
Share capital	6	2	2
Total equity		2	2

The accompanying notes form an integral part of the financial statements.

The financial statements were approved by the Board of Directors, authorised for issue, and signed on its behalf by:



Rachel Morrison
Director

11 April 2017

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. ACCOUNTING POLICIES

The principal accounting policies adopted in the presentation of the financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

General information

The Company is a limited liability company, domiciled and incorporated in the United Kingdom and is part of a European listed group whose ultimate parent is Banco Santander SA. The registered office address of the Company is 2 Triton Square, Regent's Place, London NW1 3AN.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS.

The functional and presentation currency of the Company is sterling.

The financial statements have been prepared on the going concern basis using the historical cost convention. An assessment of the appropriateness of the adoption of the going concern basis of accounting is disclosed in the Directors' Statement of Going Concern set out in the Report of the Directors.

Future accounting developments

The Company has not yet adopted the following significant new or revised standards and interpretations, and amendments thereto, which have been issued but which are not yet effective for the Company:

- a) IFRS 9 'Financial Instruments' (IFRS 9) – In July 2014, the International Accounting Standards Board (IASB) approved IFRS 9 to replace IAS 39 'Financial Instruments: Recognition and Measurement'.

IFRS 9 sets out the requirements for recognition and measurement of financial instruments. The main new developments of the standard are discussed below.

Classification and measurement of financial assets and financial liabilities: Under IFRS 9, financial assets are classified on the basis of the business model within which they are held and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. For many financial assets, the classification and measurement outcomes will be similar to IAS 39. However, under IFRS 9, embedded derivatives are not separated from host financial assets and equity securities are measured at fair value either through profit or loss or, in certain circumstances, an irrevocable election may be made to present fair value movements in other comprehensive income. The requirements for the classification and measurement of financial liabilities were carried forward unchanged from IAS 39, however, the requirements relating to the fair value option for financial liabilities were changed to address own credit risk and, in particular, the presentation of gains and losses within other comprehensive income.

Impairment: IFRS 9 introduces fundamental changes to the impairment of financial assets measured at amortised cost or at fair value through other comprehensive income, lease receivables and certain commitments to extend credit and financial guarantee contracts. It is no longer necessary for losses to be incurred before credit losses are recognised. Instead, under IFRS 9, an entity always accounts for expected credit losses (ECLs), and any changes in those ECLs. The ECL approach must reflect both current and forecast changes in macroeconomic data over a horizon that extends from 12 months to the remaining life of the asset if a borrower's credit risk is deemed to have deteriorated significantly at the reporting date compared to the origination date. The estimate of ECLs should reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes and considering reasonable and supportable information at the reporting date. Similar to the current incurred credit loss provisioning approach, management will exercise judgement as to whether additional adjustments are required in order to adequately reflect possible events or current conditions that could affect credit risk.

For financial assets, an ECL is the current value of the difference between the contractual cash flows owed to the entity according to the contract and the cash flows which the entity expects to receive. For undrawn loan commitments, an ECL is the current value of the difference between the contractual cash flows owed to the entity and the cash flows which the entity expects to receive if the loan is drawn.

An assessment of each facilities' credit risk profile will determine whether they are to be allocated to one of three stages:

- Stage 1: when it is deemed there has been no significant increase in credit risk since initial recognition, a loss allowance equal to a 12-month ECL – i.e. the proportion of lifetime expected losses resulting from possible default events within a the next 12-months - will be applied;
- Stage 2: when it is deemed there has been a significant increase in credit risk since initial recognition, but no credit impairment has materialised, a loss allowance equal to the lifetime ECL – i.e. lifetime expected loss resulting from all possible defaults throughout the residual life of a facility – will be applied; and
- Stage 3: when the facility is considered credit impaired, a loss allowance equal to the lifetime ECL will be applied. Similar to incurred losses under IAS 39, objective evidence of credit impairment is required.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. ACCOUNTING POLICIES (CONTINUED)

Future accounting developments (continued)

The assessment of whether a significant increase in credit risk has occurred since initial recognition involves the application of both quantitative measures and qualitative factors, requires management judgement and is a key aspect of the IFRS 9 methodology.

Transition: IFRS 9 has been endorsed for use in the European Union. The mandatory effective date of IFRS 9 is 1 January 2018. There is no requirement to restate comparative information. No significant impact on the financial statements is expected by the Company arising from the implementation of this standard.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise assets with less than three months' maturity from the date of acquisition, including cash, restricted balances and non-restricted balances with central banks, loans and advances to banks, amounts due from other banks and bank overdrafts.

2. CRITICAL ACCOUNTING POLICIES AND AREAS OF SIGNIFICANT MANAGEMENT JUDGEMENT

The preparation of the Company's financial statements requires management to make estimates and judgements that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period. Management evaluates its estimates and judgements on an on-going basis. Management bases its estimates and judgements on historical experience and on other factors that are believed to be reasonable under the circumstances. Management do not consider there to be any areas requiring significant management judgement throughout the current or prior year.

3. OPERATING EXPENSES

Directors' emoluments

The Directors' services to the Company are an incidental part of their duties. No Directors were remunerated for their services to the Company. Director emoluments are borne by Santander UK plc and Wilmington Trust SP Services (London) Limited. No emoluments were paid by the Company to Directors during the year (2015: £nil).

Staff costs

The Company had no employees in the current or previous financial year.

Auditor remuneration

Fees payable to the Company's auditors for the audit of the Company's annual financial statements for the current year are £5,000 (2015: £5,227) and have been borne by Santander UK plc, for which no recharge has been made in the current or prior year.

4. TAXATION

The Company has not traded since incorporation and therefore there is no tax charge or related tax closing balance for either the current or previous year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

5. TRADE AND OTHER RECEIVABLES

	2016 £	2015 £
Cash held by Wilmington Trust SP Services (London) Limited	2	2
	2	2

The amounts due by related parties is a cash balance held by Wilmington Trust SP Services (London) Limited in the name of and benefit for the Company, and is accessible by the Company on demand.

6. SHARE CAPITAL

	2016 £	2015 £
Issued and fully paid:		
2 (2015: 2) ordinary shares of £1 each	2	2

A cash deposit of £2 is held by Wilmington Trust SP Services (London) Limited in the name of and benefit for the Company, and is accessible by the Company on demand.

7. FINANCIAL RISK MANAGEMENT

The Company's risk management focuses on the major area of credit risk and operational risk.

Credit risk

Credit risk is the risk that counterparties will not meet their financial obligations and may result in the Company losing the principal amount lent, the interest accrued and any unrealised gains, less any security held. It occurs in related party assets held by the Company. Credit risk is mitigated by placing the relevant assets in trust.

The maximum exposure to credit risk without taking into account collateral or credit enhancements is the carrying amount of trade and other receivables as disclosed in note 5.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes regulatory, legal and compliance risk. As part of operational risk it is also considered whether the operations of the entity are in line with the transaction documents. Operational risk is monitored and managed within the Group. An independent central operational risk function has responsibility for establishing the framework within which these risks are managed and is aligned to operational risk professionals within business areas to ensure consistent approaches are applied across the Group. The primary purpose of the framework is to define and articulate the Group-wide policy, processes, roles and responsibilities.

The day-to-day management of operational risk is the responsibility of business managers who identify, assess and monitor the risks, in line with the processes described in the framework. The operational risk function ensures that all key risks are regularly reported to the Group's, risk committee and board of directors.

8. RELATED PARTY TRANSACTIONS

There were no related party transactions during the year. There were no related party transactions during the year, or existing at the Balance Sheet date, with key management personnel of the Company.

The trade and other receivables balance is cash held by Wilmington Trust SP Services (London) Limited in the name of and benefit for the Company, and are accessible by the Company on demand.

9. CAPITAL MANAGEMENT AND RESOURCES

Capital held by the Company and managed centrally as part of the Santander UK Group Holdings plc group, comprises share capital and reserves which can be found in the Balance Sheet on page 6.

Capital is managed by way of processes set up at inception of the Company and subsequently there is no active process for managing its own capital. The Company is designed to hold minimum reserves once all amounts owed by group undertakings have been received and amounts owed to group undertakings have been paid. The Company's capital is not externally regulated.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

10. PARENT UNDERTAKING AND CONTROLLING PARTY

The Company's immediate parent company is Holmes Holdings Limited a Company incorporated in Great Britain and registered in England and Wales, holding all of the shares in the Company as trustee under a discretionary charitable trust, dated 17 February 1999, for the benefit of certain charities.

The administration, operations, accounting and financial reporting functions of the Company are performed by Santander UK plc, which is incorporated in Great Britain and registered in England and Wales.

Santander UK plc has been delegated administration and servicing functions on behalf of the Company.

The Company is a Special Purpose Entity controlled by Santander UK plc and is therefore consolidated within the Santander UK Group Holdings plc group financial statements in accordance with IFRS 10.

The Company's ultimate controlling party is Banco Santander SA a company incorporated in Spain. Banco Santander SA is the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member. Santander UK plc is the parent undertaking of the smallest group of undertakings for which the group financial statements are drawn up and of which the Company is a member.

Copies of all sets of group financials statements, which include the results of the Company, are available from Secretariat, Santander UK plc, 2 Triton Square, Regent's Place, London NW1 3AN.